SECTION 2
How Planning and Performance Drive the Budget

This section describes the components of performance budgeting and the planning and performance elements that agencies need to submit to OFM.
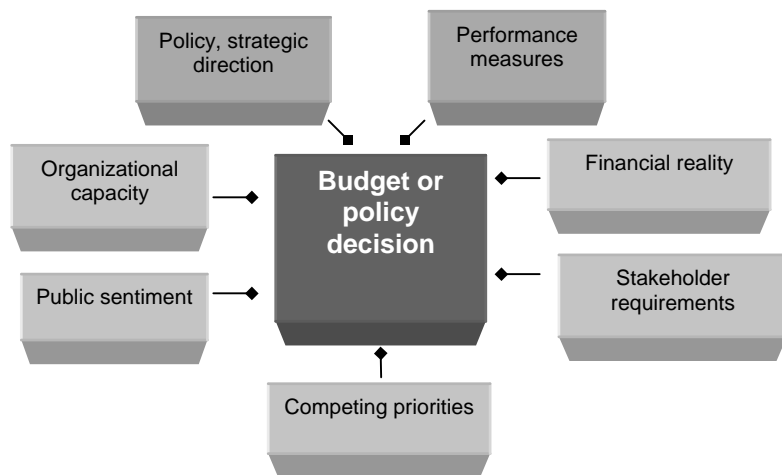
2.1   Performance budgeting

What is performance budgeting?

Performance budgeting is the act of considering and making choices about desired outcomes. Performance budgeting focuses on the results to be gained through investment decisions.

While we believe that we reach better budget decisions through the routine consideration of strategic planning elements and performance information, other important factors must be considered.

Why use performance budgeting?

The budget is one of the most important tools for implementing policy and achieving results. In order to leverage this tool as much as possible, we use performance budgeting:

- To ensure that financial decisions support ever-improving organizational performance by:
    - Targeting resources to the most important results and
    - Targeting resources to the most effective strategies.

- To make performance information readily available to those who make resource decisions.

- To communicate performance accomplishments associated with the agency's enacted budget.

While performance budgeting is required by state statute (RCW 43.88.090), its benefits are more fully appreciated if the agency uses planning and performance information to guide management decisions as well.

2.2   What is Washington's managing-for-results framework?

The managing-for-results framework

Over the past several years, agencies in Washington State government have been using a number of management tools to improve results. Some are based in statute (strategic plans) while others are the result of direction from the Governor (quality improvement, regulatory improvement, and performance agreements between the Governor and cabinet agency directors) or from agency senior management.

Washington State Managing-For-Results Framework
✓ = *part of the balanced scorecard performance management system*   **$** = *part of the performance budget*

Set strategic direction
- ♦ Policy foundation (*statute, regulation*) and identified changes
- **$** Strategic planning (*establish and prioritize goals and strategies*)
- ✓**$** Performance measurement targets (*based on objectives contained in directors' performance agreements and strategic plans*)

Align resources
- ✓ Human resource planning and staff allocation
- ✓**$** Budget requests/allotments based on planning and performance
- ✓ Information technology portfolio management, planning, and deployment
- ✓ Establish work plans in support of strategic plan
- ✓**$** Establish capital program and facility maintenance plans in support of strategic plan

Implement and improve programs
- ✓ Program delivery
- ✓ Process improvement (*quality improvement teams, breakthrough strategy*)
- ✓ Regulatory improvement
- ✓**$** Collect and report data

Evaluate results
- ✓**$** Compare actual to estimated performance; performance evaluations/audits
- ✓**$** Diagnose and discuss problems and successes
- ✓**$** Use data and learning for the next planning cycle and ongoing management decisions

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This managing-for-results framework is outlined above with the performance budgeting elements flagged. Some of the key components of the framework are discussed below. For more information, visit the Governor's Governing for Results web site, http://www.governor.wa.gov/quality/quality.htm.

The Governor's policy priorities

Governor Locke has set policy priorities "to make Washington a better place to live, work, and raise a family."

Education
Make Washington's schools the best in the nation, and create the opportunity for lifelong learning for people of all ages.

"We will make education the first priority in every budget we write."
(Governor Gary Locke, Inaugural Address, January 15, 1997)

Economic Vitality

Create an economic climate that will help Washington's families, communities, and businesses thrive in the high-tech, global economy of the 21st century.

The Environment

Promote the ethic of good stewardship, so that all citizens share responsibility for protecting our natural resources while preserving our economic vitality.

Public Safety and Health

Assure the health and safety of our communities, schools, neighborhoods, and people.

Restoring Trust in Government

Make state government credible and trustworthy in the eyes of residents through innovation, effectiveness, efficiency, and customer-service.

"What we now need are results--the kind of results that inspire public confidence and instill pride among our employees. We need to make sure this message penetrates every corner of state government, from senior managers to line staff in the field. And we need to make sure all our efforts are part of an overall strategic plan for our agencies and this administration." *(Governor Gary Locke, Governor's Leadership Conference, June 3, 1999)*

The strategic plan provides answers to key strategic and management questions

Whether called strategic planning, business planning, or something else, a successful agency needs to develop thorough answers to these critical questions:

1. **Where do we want to be?**

   Vision statements, goals, objectives, and performance targets provide the answer.

2. **Where are we today?**

   Mission statements, statutory references, measures of current performance, and assessments of the external environment, customers, partners, risks, and internal resources describe the current state.

3. **How do we intend to close the gap between where we are and where we want to be?**

   Performance measure analysis, strategies, and the financial plan identify the gap and the preferred ways to close it.

Section 2.3 will provide more detail on the desired elements of a strategic plan.

Performance measures define success and make it possible to track progress

Performance measures describe how success in achieving the agency goals will be measured and tracked. Performance measure targets provide the quantifiable answer to the question, "How will we know when we've been successful in achieving our goal?" Analyzing the gaps between current performance levels and performance targets helps organizations identify priority areas needing improvement and develop strategies that will close the gap.

OFM will be conducting a "Budget Jump Start" exercise this spring that will include an analysis of performance progress to date. Refer to Section 2.3 for more information.

The balanced scorecard is used to focus action on key areas

The balanced scorecard takes elements from the agency strategic plan and organizes the information in a way that focuses attention on key areas and elements needed for successful strategic management. The scorecard becomes a kind of executive summary of the strategic plan, translating strategy into operational objectives that drive behavior and performance.

To learn more about building and using a balanced scorecard, see Appendix A-6 or go to the Governing for Results web site at http://www.governor.wa.gov/quality/quality.htm.

The Balanced Scorecard

	Objectives/ Goals	Measures	Targets	Initiatives
Value/Benefit - *To achieve our vision, what public benefits must we provide?*				
Financial/Social Cost - *While achieving our vision, how shall we minimize cost to the state and society?*				
Customer/Constituent - *To achieve our vision, how should we appear to our customers and the public?*				
Internal Process - *To satisfy our customers, in what business processes must we excel?*				
Learning and Growth - *To achieve our vision, how will we sustain our ability to change?*				

How does the managing-for-results framework support budget development?

The managing-for-results framework helps an agency to define and communicate its desired outcomes and to develop effective strategies to achieve them. The budget is one of the most important tools for implementing policy and achieving these results. In order for decision makers to make effective investment decisions, agencies should prepare budget proposals that are crafted to achieve the strategic goals they are trying to attain. In its review of agency budget requests, OFM will be looking for evidence that the agency understands, is acting on, and is communicating these linkages – that planning and performance do, indeed, drive the budget request.

2.3   Agencies need to submit a strategic plan

Submitting a strategic plan

As part of the budget submittal, agencies need to provide strategic plan information covering the next six-year period (Fiscal Years 2004 to 2009).

The goals and strategies proposed for the next two years (2003-05 Biennium) should be the basis for your agency's 2003-05 Biennium operating and capital budget requests.

What are the required components of the strategic plan?

While agencies may prepare more detailed plans for internal use, the strategic plans submitted to OFM must contain the elements listed below.

For examples of good strategic plans from Washington State agencies, please visit http://www.ofm.wa.gov/budinst03-05/part1/docstrategy.pdf (Department of Corrections) and http://www.ofm.wa.gov/budinst03-05/part1/dorstrategy.pdf (Department of Revenue).

A. Mission statement

An agency's mission statement describes its reason for existence in general terms that capture its unique purpose and functions. It typically describes who the organization is, what it does, why it does it, and for whom. Refer to Appendix A-3 for examples.

B. Listing of statutory authority references

The authority statement is a brief reference to the enabling legislation and statutes that authorize the establishment and operation of agency programs.

C. Goals

Goals are broad, high-level, issue-oriented statements of an organization's desired future direction or desired state. Goals elaborate on the organization's vision statement, articulating the overall expectations and intentions for the agency. They should fit well with the mission statement and values, and answer the question, "What do we need to achieve?" Refer to Appendix A-3 for examples. In your strategic plan submittal to OFM, please note any goals that link to established multi-agency plans, such as the Salmon Recovery Strategy.

D. Objectives

Objectives are measurable targets that describe specific results a service or program is expected to accomplish within a given time period. Refer to Appendix A-3 for examples.

E. Performance measures

Performance measures are quantitative indicators of how an agency's programs or services are contributing to the attainment of strategic plan elements. These include outcome, output, and efficiency measures. Agencies are asked to link performance measures to goals. Wherever possible, agencies should set fiscal year targets for performance measures based on comparisons. Refer to Section 2.5 and Appendices A-1, A-2, and A-5 for more information and examples. As mentioned above in the discussion of goals, please note any performance measures that link to established multi-agency plans, such as the Salmon Recovery Strategy.

F. Appraisal of external environment

It is important for budget decision makers to understand the environment in which the agency's programs must operate, and to assess the impact of forces in the outside environment that can affect the agency's ability to realize its mission, goals, and objectives. For example: How do potential changes in the economy affect clients or demand for the agency's services? Are populations the agency serves growing at rates significantly different than the I-601 growth rates? The agency should provide a clear, concise description of the effect that the external environment has on the agency and its programs. See Appendix A-4 for a more detailed list of suggested items to consider in this appraisal.

G. Trends in customer characteristics

The agency may be experiencing trends in customer characteristics that might indicate the need to modify services and/or service delivery methods. Is the client population growing? Are there better ways to reach and provide services to the client group? See Appendix A-4 for a more detailed list of suggested items to consider in this assessment.

H. Discussion of major partners

If applicable, agencies should describe key programs or initiatives involving major partners, such as other state agencies. The description should include a clear statement of each partner's responsibilities and trends affecting partners and relationships with partners.

We strongly encourage agencies to coordinate with these major partners and with OFM during the budget development process to share initiatives and plans.

I. Strategies

Strategies are statements of the methods for achieving goals. While goals and objectives state <u>what</u> the organization wants to achieve, strategies state <u>how</u> goals will be achieved. Refer to Appendix A-3 for examples. As mentioned above for goals and performance measures, please note any strategies that link to established multi-agency plans, such as the Salmon Recovery Strategy.

J. Financial plan assessment

The financial plan is a brief narrative description of how the agency's current funding matches its goals and how future funding needs will change based upon the strategic plan.

K. Business plans for certain proprietary funds

This business plan is required only of agencies with certain proprietary funds. Refer to section 2.4 for more information.

L. Balanced scorecard

If your agency has developed a balanced scorecard, please send us a copy prior to, or with, your budget submission. The scorecard provides a great summary of how the agency will operationalize the strategic plan.

Optional but desirable strategic plan elements

The following elements are an important part of the strategic planning process but are not required for the strategic plan submittal to OFM. Agencies will be asked to provide this type of information in support of budget decision package requests to help OFM analysts answer the questions listed in Section 3.1. (Decision packages are a component of agency budget requests and will be described in detail in the Part II budget instructions.) If an agency feels it would be relevant or compelling to include these optional items in the strategic plan submitted to OFM, we would welcome the information.

M. Risks, obstacles, and opportunities that the agency faces

The agency may want to include in its strategic plan a description of any risks created by the plan, the risks of not fulfilling the plan, or particular obstacles and opportunities that affect success.

N. Internal resource assessment (e.g., staff, facilities, technology)

Before making a budget request, we assume that an agency will have taken stock of its strengths and weaknesses as an organization, examining factors within the agency that can positively or negatively affect its ability to accomplish its mission, goals, and objectives. Areas to consider include, but are not limited to, the characteristics of its staff, technology, capital facilities, and supplier relationships. Agencies should review their current ten-year capital plan and highlight adjustments to that plan due to changes of the external environment, organizational changes, or changes in services delivery. For example, caseload predictions for 2005-07 may necessitate an earlier construction start for the associated new capital facility, reprioritization, delay, or abandonment of other projects. See Appendix A-4 for a more detailed list of suggested items to consider in this assessment.

O. Alternative strategies

A discussion of alternative strategies considered but not chosen by the agency helps explain why the specific strategy was proposed in the budget.

P. Evaluation methods

If applicable, an agency might describe the evaluation method used to determine which strategy has the best likelihood for success.

Is a specific display required for the strategic plan?

No. We simply would like the strategic plan to contain the required elements identified above. We recognize that agencies may display these and other elements in different formats.

Do all years of the plan need to contain the same level of detail?

No. The purpose of the last four years in the six-year strategic planning period is to generate some broad discussion of future trends and expectations. Therefore, we expect the description of the last four years in the strategic plan to be more general than that for the 2003-05 Biennium. Detailed strategies for the last four years are not required.

When is the strategic plan information due to OFM?

May 1 - Submit information for the Budget Jump Start

In spring 2000, OFM initiated a "Budget Jump Start" process to facilitate the exchange of feedback and suggestions for the strategic plans and budget proposals to be submitted in late summer. OFM budget analysts found this process very helpful in their understanding of the agencies' strategic plans and budget submittals. Because of its usefulness, we are continuing with this process. **Please submit answers to the following questions by email or letter to your OFM budget analyst by May 1, 2002**:

1. We would like to hear what you are learning <u>so far</u> from your strategic planning, performance evaluation, and quality improvement efforts. Please answer the following questions:

❏ Have your performance evaluation and strategic planning processes identified emerging issues, changing needs, or performance improvement opportunities for the next biennium?

❏ Have you identified any expected changes to your operational, capital facility, or technology strategies?

❏ Have you initiated quality or other improvement efforts aimed at the key issues and needs you have identified so far? What results have you realized to date?

2. Please review your most recent performance measure information (for example, results as of the end of the third quarter) and analyze any variances. Be sure to include the official performance measures reported to OFM and measures for items that received new funding based on performance improvement in the current biennium in your review. Please answer the following questions.

    ❏ If your actual performance is different than expected at this point, why?

    ❏ In those cases where performance targets were not met, what have you done to date to try to close performance gaps?

    ❏ How do your performance results compare to those of other comparable organizations, or to recognized industry standards? If your agency's performance differs from the top performers or the industry standard, what factors account for the difference in performance?

OFM will also be sharing information with agencies

As part of the Budget Jump Start, OFM will share information we gather about the emerging economic, demographic, and policy issues. We will also be sharing suggestions on how to strengthen agency strategic plans and budget requests. Our hope is that the Budget Jump Start will improve coordination and provide better, more useful information to you early in the budget development process.

Section 3.1 provides more information on how OFM intends to use the Budget Jump Start information.

July-September - Updated strategic plan is due with the rest of the budget

The full strategic plan is due with the rest of your budget proposal next summer. Our current schedule would require agency budget submittals between July and September. The Part II operating budget instructions will provide the specific budget submittal dates for each agency.

If your agency completes its strategic plan early, we would appreciate having two copies as soon as it is ready.

**Where can I find guides
to developing a
strategic plan?**

We have included more detailed guidance below about two
components of the strategic plan: performance measures (Section
2.5) and proprietary fund business plans (Section 2.4).

You can find references and links to a number of strategic and
business planning guides and resources in Appendix A-6.

If you have any questions about whether your agency's strategic plan
will satisfy the budget submittal requirements, please discuss them
with your OFM budget analyst.

2.4   More about business plans required for some proprietary funds

**Agencies with certain
proprietary funds must
prepare business plans**

A proprietary fund finances the services it provides through user
charges or on a cost-reimbursement basis. Sometimes the standard
budget submittal information OFM requests cannot provide a
complete picture of the operation of a proprietary fund. In these
cases, agencies should provide additional business plan information
as part of the strategic plan. This additional information is only
required for the agencies and funds listed below.

Business plan information is required for these funds	
Agency	**Fund**
Office of Administrative Hearings	484 Administrative Hearings Revolving Account
Attorney General	405 Legal Services Revolving Account
State Auditor's Office	413 Municipal Revolving Account
	483 Auditing Services Revolving Account
Department of Corrections	401 Correctional Industries Revolving Account
Office of Financial Management	419 Data Processing Revolving Account
Department of General Administration	422 General Administration Services Account
Health Care Authority	418 Health Care Authority Administrative Account
	438 Uniform Dental Plan Benefits Administration Account
	439 Uniform Medical Plan Benefits Administration Account
Department of Information Services	419 Data Processing Revolving Account
Department of Labor and Industries	608 Accident Account
	609 Medical Aid Account
	610 Accident Reserve Account
Liquor Control Board	501 Liquor Revolving Account
Washington State Lottery Commission	577 State Lottery Account
	578 Lottery Administrative Account
Office of Minority and Women's Business Enterprises	453 Office of Minority & Women's Business Enterprises Account
Department of Personnel	415 Department of Personnel Service Account
	419 Data Processing Revolving Account
	455 Higher Education Personnel Service Account
Secretary of State	006 Archives and Records Management Account
Department of Transportation	410 Transportation Equipment Account
Public Printer	420 Printing Plant Revolving Account

What additional information needs to be included in the strategic plan for these funds?

Operations Analysis (Narrative)

- A Facilities/Equipment/Capital Plan: The business plan should include both short-term (budget cycle) and long-term (six year) plans for facilities, equipment, and capital purchases.

- A discussion of key supply and material needs and assumptions.

- Profit or Capital Maintenance Expectations: Describe whether the agency plans to set rates to recover all costs, including depreciation--the capital maintenance expectations. Describe whether the agency is setting rates above a level necessary to recover all costs.

Operations Analysis (Financial Statements)

If applicable, present the following financial information about each segment of the operation.

- Statement of Revenues and Expenses.
- Statement of Changes in Cash Position.

Performance Evaluation (Current versus Prior Periods)

Each agency should develop external benchmarks based on other governmental entities or the private sector for each of the following measures and include the benchmarks for the plan period and actuals for the 2001-03 Biennium in the business plan.

- Product Unit Costs: Include calculation methodology.
- Summary Level Trend Data: Operating revenues and expenses and profits/(losses) for the most recent ten-year time period (Fiscal Year 1992 - Fiscal Year 2001).
- Business Performance Ratios: Include such things as inventory turnover ratio, receivable turnover ratio, debt ratios, and other ratios used by similar entities. Significant variances in these ratios should be explained.
- Product/Service Rates (Prior, Current, Proposed): Show how rates are derived, including direct administration and indirect components. Explain reasons for rate changes.
- Program Accomplishments: Describe how the operation is meeting and anticipating customer needs. Discuss business solvency and the competitiveness of your pricing. Describe efficiencies achieved that serve the customer better.

2.5   More about performance measures
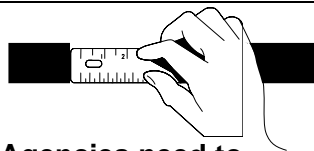
Agencies need to update performance measure actuals in PMTES

Agencies should continue to report actuals for performance measures established for tracking during the 2001-03 Biennium in OFM's Performance Measure Tracking and Estimate System (PMTES). These measures relate to the current biennium budget and the results agencies have achieved with their 2001-03 appropriations.

Agencies must submit performance measures in support of strategic plan goals

As mentioned in Section 2.3, agencies should include performance measures in the strategic plan, generally measuring accomplishments in relation to each major strategic plan goal. Only a core set of useful and verifiable performance measures relating to agency goals should be submitted to OFM. Agencies may utilize performance measures to track accomplishment of more detailed objectives or operations for internal management purposes, but such performance measures need not be submitted to OFM.

What if we want to change our performance measures for 2003-05?

For various reasons, agencies may wish to make changes to the measures previously submitted. For instance, refinements may be necessary to better define the desired performance for a stable goal. An agency may also want to add new measures or stop tracking (after Fiscal Year 2003) certain measures traditionally reported to OFM. In other cases, the agency's goals and strategies or statutory environment may have changed since the 2001-03 budget submittal, prompting a need to modify the performance measures in some way.

OFM wants to encourage consistent trend data for previously agreed-to measures but will consider the necessity of certain changes. Agencies <u>do</u> need to consult with their OFM budget analyst if there are significant revisions to measures used for the 2001-03 budget. These discussions may also involve legislative staff, since we are trying to establish trend information for key performance measures most relevant to the budget.

Consult with OFM budget analysts on proposed performance measures

Please review your draft performance measure descriptions and targets for the 2003-05 Biennium with your OFM budget analyst prior to finalizing them. Analysts can help the agency better focus its measurement efforts, enhance the credibility of agency performance measures, anticipate reaction to refinement of performance measures used in prior biennia, and anticipate which measures will likely be selected by OFM for on-going tracking and public reporting during the 2003-05 Biennium.

What types of measures should be submitted?

OFM is primarily interested in three types of performance measures, with outcome measures being the most important type:

Outcome measures

Report the results of the service being provided. These measures are the most significant because they indicate the impact on the problem or issue the program was designed to achieve.

Examples:
- 4th grade reading test scores
- Percentage of the population treated who are now free of the target disease
- Number of jobs of a certain income level created by firms receiving assistance

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Output measures

Indicate how much work has been completed.

Examples:
- Number of products completed or services delivered
- Caseloads or headcounts in such areas as entitlement programs, corrections, or education
- Number of maintenance projects completed

Efficiency measures

Show the relationship between inputs (dollars or FTEs) to output or outcome.

Examples:
- Program expenditures per actual export-related job created by client firms
- Cost per case completed
- Number of investigations completed per FTE

What are the approaches to setting performance targets?

NEW!

Ideally, performance measure estimates, or targets, for each fiscal year of the 2003-05 Biennium should be set based on comparative data. The agency can set its targets based on:
- Comparison to its own past performance
- Comparison to an established industry standard
- Comparison to an articulated customer preference (usually established through a customer survey)
- Comparison to performance of other comparable organizations

When are performance measure revisions due to OFM?

Performance measure revisions are due with the rest of your budget proposal later next summer. The Part II instructions will provide the specific budget submittal dates for each agency and information on the format for budget information related to agency performance measures.

Where can I find guides to developing performance measures?

The appendix offers more information about different types of performance measures and refers to guides and resources for developing and using performance measures. Also refer to the OFM web site at http://www.ofm.wa.gov/budget.htm.

The PMTES system supports performance estimates for quarterly reports and for budget submittals

OFM has created an automated Performance Measure Tracking and Estimate System (PMTES), which allows agencies to report quarterly progress on performance measures, as well as to generate performance estimates for biennial budget submittals.

Please contact Art Overman, OFM Accounting Division, at (360) 725-5271 for security authorization, system access, and training information.

2.6   Strategic plans drive capital and technology planning

Strategic plans should address capital and technology needs

The strategic planning process should identify emerging issues related to agency capital and technology needs. Changes in caseloads, customer expectations, agency strategies, facility age, or digital government initiatives may create profound changes in an agency's facility and technology infrastructure requirements. Be sure that your strategic plan discusses the effects of your agency strategy on these needs.

The Capital Budget Instructions

The OFM capital budget instructions will be issued later this spring and will provide more information on budget submittal requirements and the expected links between the strategic plan and capital budget data.

**DIS Technology Portfolio
Management Instructions**

The Information Services Board (ISB) has adopted information technology (IT) portfolios as the planning and management process for IT resources. The portfolio management process integrates agency strategic planning, technology planning, and the budget process. For the 2003-05 budget process, agencies making budget requests for IT investments should do so in the context of their IT portfolios.

ISB policies regarding portfolio management are available at http://www.wa.gov/dis/portfolio. Agencies should contact their assigned DIS Senior Technology Management Consultant for assistance or additional information.